

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

FIRST-CLASS PACKAGE SERVICE (FCPS)
SERVICE STANDARD CHANGES, 2021

Docket No. N2021-2

INITIAL BRIEF OF THE UNITED STATES POSTAL SERVICE

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ATTESTATION OF WORD COUNT

The Postal Service attests that this brief contains 8,816 words, excluding the table of contents and table of authorities.

I. STATEMENT OF THE CASE

“The dynamic and complex nature of the postal network requires vast components working in harmony to deliver mail consistently, reliably, and efficiently.” Advisory Opinion on Service Changes Associated with First-Class Mail and Periodicals, PRC Docket No. N2021-1 (July 20, 2021), at 86.

On March 23, 2021, the Postal Service published a ten-year strategic plan, entitled *Delivering for America: Our Vision and Ten-Year Plan to Achieve Financial Sustainability and Service Excellence* (Plan). The Plan sets forth a comprehensive and balanced set of initiatives to address the Postal Service’s long-standing financial, service, and operational challenges. Ultimately, the Plan is designed to achieve two fundamental goals: service excellence, defined as meeting or exceeding 95 percent on time delivery across all product categories, and financial sustainability, by enabling the Postal Service to achieve break-even performance over the next ten years while making the necessary investments in people and infrastructure. By achieving these goals, the Plan will ensure that the American people receive prompt, reliable, and efficient universal postal services, through a postal system that is self-sustaining and capable of meeting their evolving needs.

On June 17, 2021, in accordance with section 3661 of title 39 of the United States Code, the United States Postal Service requested that the Postal Regulatory Commission issue an advisory opinion with respect to proposed service standard changes that are critical elements of the Plan’s twin goals of service excellence and financial sustainability. Specifically, the Postal Service proposes changing the service standards for First-Class Package Service (FCPS) within the contiguous United States

from the current two- or three-day standard to a two- to five-day standard. The current two-day service standard would increase from six to eight hours between origin and destination processing facilities, thereby increasing two-day volume by almost 5 percent. Otherwise, the transportation window between origin and destination processing facilities within the contiguous United States would be expanded. For offshore states and territories, the Postal Service proposes to add a day to the current three- or four-day standard, while maintaining the five-day limit. (A detailed description of the proposed service standard changes is set forth in the attached Appendix.) As demonstrated below, this change will help to enable the dynamic and complex postal network and its vast components to work in harmony to deliver packages consistently, reliably, and efficiently.

II. STATEMENT OF POSITION

Service standards represent the time in which customers should expect mail or packages to be delivered, and a key component of the Plan is to ensure that those standards identify meaningful expectations that the Postal Service can realistically achieve on a consistent basis. The existing FCPS standards impose and reinforce transportation network inefficiencies and high costs by compelling dependence on more expensive and less reliable air transportation for a significant amount of FCPS volume. Moreover, the constrained transportation requirements necessitated by the existing service standards prevent the Postal Service from leveraging strategies to reduce transportation costs and increase delivery-time reliability.

In contrast, the proposed standards will promote service reliability, cost savings and operational efficiencies by reducing the Postal Service's dependence on more

expensive air transportation in favor of less expensive and more reliable surface transportation. Most notably, the record demonstrates that shifting FCPS volume from air to surface transportation will enable the Postal Service to provide customers with much more predictable and reliable service. Surface transportation is generally more reliable than air transportation. Surface transportation suffers less from weather delays and network congestion, does not experience delays due to air traffic control ground stops, and generally requires fewer handlings and so offers fewer potential points of failure.

In addition, the Postal Service projects that shifting FCPS volume from air to surface transportation will reduce transportation costs by \$42 million a year, with a potential additional \$77 million to \$214 million savings from future opportunities in reducing air charters and streamlining the Network Distribution Center (NDC) network.

Shifting FCPS volume from air to surface transportation will allow improved service capability by increasing the efficiency of the surface transportation network through improved routing efficiency, improved vehicle volume utilization, and by more realistically aligning the Postal Service's FCPS service standards with the Postal Service's operational capabilities. Thus, the Postal Service can create a more efficient nationwide surface transportation network. This will, in turn, enable future improvements in the Postal Service's mail processing network. NDCs will be transitioned to Regional Distribution Centers (RDCs) dedicated to package processing, while letters and flat products from the current NDCs will be merged into streamlined, shape-based mail flows within our Processing and Distribution Centers (P&DCs), which will increase the density in our containers and trucks and facilitate greater use of our

ground transportation assets. In addition, the increased transportation windows will allow better, more timely processing, thereby reducing the need to leave early to meet service standards and leaving behind committed volume that will require an extra trip or be late. Similarly, some of the volume may be containerized into pallet boxes and staged for dispatch on surface transportation; the concomitant reduction in airline assignments and associated handling at origin, plus the reduction in sack handling at destination, is expected to improve processing center efficiency.

For package volume that would still be transported by air, the Postal Service will gain better flexibility to select lower-cost commercial air carriers over more expensive cargo air carriers for offshore transportation.

While the anticipated long-term benefits of the proposed service standard changes are significant, the Postal Service appreciates that these changes—as with all change—come at a cost to the status quo. In that respect, the Postal Service has carefully considered the impact to customers, suppliers, personnel, and the Postal Service itself, and anticipates only modest, short-term adverse effects, which the Postal Service will work to mitigate.

In accordance with the statutory policies expressed in sections 101, 403, and 3661 of title 39 of the United States Code, these proposed service standard changes result in a more reliable, efficient, and cost-effective transportation network. More volume will be transported through a better-utilized, more reliable, and lower-cost surface transportation network while also providing flexibility to absorb transportation and mail processing delays that will inevitably arise in the normal course of business to maintain a consistently high service performance level for First-Class Package Service.

III. DISCUSSION

The FCPS product is part of the Postal Service's domestic competitive product and solutions portfolio. It is an 'ounce-based' product competing in the lightweight market (*i.e.*, under one pound) and is priced by weight and distance. (USPS-T-3 at 1, 3.) FCPS is an end-to-end shipping solution that includes separate retail and commercial pricing categories. (USPS-T-3 at 3-4.) Most FCPS volume, however, is commercial, with pharmaceutical companies, mass merchants, and apparel retailers among the key customers. (USPS-T-3 at 5-6.)

The Postal Service believes that FCPS offers the best value—in terms of low cost and delivery speed—in the lightweight market, and FCPS has historically enjoyed consistent growth across both retail and commercial volumes. (USPS-T-3 at 2-3, 5.) The Postal Service anticipates that such growth will continue after the proposed service standards are implemented given FCPS's cost leadership and expected improved reliability. (*See infra*, section III.B.1.)

A. The Proposed Service Standard Changes Will Result in a More Reliable, Efficient, Flexible, and Cost-Effective Transportation Network.

Service standards are comprised of two components: (1) a delivery day range within which a given product is expected to be delivered; and (2) business rules that determine, within a product's applicable day range, the specific number of delivery days after acceptance of a mail piece by which a customer can expect that piece to be delivered, based on the 3-Digit ZIP Code prefixes associated with the piece's point of entry into the mail-stream and its delivery address. (USPS-T-1 at 6.)

Business rules are based on Critical Entry Times (CETs). The CET is the latest time on a particular day that a mail piece can be entered into the postal network and still have its service standard calculated based on that day (this day is termed “day-zero”). (*Id.*) In other words, if a piece is entered before the CET, its service standard is calculated from the day of entry; if it is entered after the CET, its service standard is calculated from the following day. (*Id.*) For example, if the applicable CET is 5:00 p.m., and a package is entered at 4:00 p.m. on a Tuesday, its service standard will be calculated from Tuesday, whereas if the package is entered at 6:00 p.m. on a Tuesday, its service standard will be calculated from Wednesday. (*Id.*)

Whether mail and packages are transported by air or by surface depends on an interplay between the time available within the applicable service standard and the cost of the transportation, which may include a volume element. (USPS-T-1 at 14.)

As a direct consequence of the limited transportation times dictated by the current service standards, the time element in this transportation mode determination typically dominates the cost element. (See Tr. 1/19-20 (“The biggest constraint to reducing trips and improving utilization is based on the service standards limiting the transit windows from origin to destination.”).) Thus, for distances of more than 1,800 miles within the contiguous forty-eight states, the three-day service standard is achievable only by using air transportation. (USPS-T-1 at 10; see *also* Tr. 1/25.) By expanding the available transportation time, the proposed service standards will enable the Postal Service to achieve a better balance between transportation modes by enabling surface transportation to be used when it is the more cost-effective mode. This will enable the Postal Service to implement cost-saving and efficiency-improving

transportation network upgrades, and to transport more volume through a better-utilized, more reliable, and lower-cost surface transportation network, while also providing flexibility to absorb inevitable transportation and mail processing delays. (USPS-T-1 at 15-18.)

1. The Proposed Service Standard Changes Will Promote Reliability.

The Postal Service's historical service performance measurements indicate that volume transported via surface modes has better on-time performance than volume transported by air. (USPS-T-1 at 2; USPS-LR-N2021-2-NP2.) See Advisory Opinion on Service Changes Associated with First-Class Mail and Periodicals, PRC Docket No. N2021-1 (July 20, 2021), at 80-83. A number of factors contribute to surface transportation's better performance reliability over air transportation; for example, much of the volume currently transported by air is carried by commercial passenger air carriers whose flight schedules can be volatile and subject to last-minute changes based upon weather delays, network congestion, and air traffic control ground stops. (USPS-T-1 at 2.)

Additionally, surface transportation generally requires less handling than air transportation. Each touch point presents an opportunity for increased delay, and typically air transportation requires six extra steps between the first and last-mile:



(USPS-T-1 at 3; see *also* Tr. 1/5 (more touch points mean more potential failures).)

Increasing the potential use of surface transportation beyond its current practical limit of 1,800 miles to the entire contiguous forty-eight states will greatly improve FCPS transportation reliability.

2. The Proposed Service Standard Changes Will Improve Efficiency.

Expanding the current transit window for FCPS volume will provide opportunities to improve route efficiency and vehicle utilization. Thus, the additional time will allow the Postal Service to: (a) increase the use of transfers via aggregation sites and Surface Transfer Centers (STCs); (b) combine trailer loads for one destination with loads for other destinations (load sequencing); and (c) route “multi-stop” lanes where the Postal Service could pick up volume from multiple origins along the line of travel for the final destination. (USPS-T-1 at 16; see *also* Tr. 1/28-30.) As witness Hagenstein testified, although a model is not dispositive and should be considered a decision-support tool, rather than a decision-making tool, the Postal Service utilized appropriate data sources and modeling techniques to assess the proposed changes to the service standards for

FCPS and the effects that such changes will have on transportation time and efficiencies in the transportation network. (USPS-T-1 at 18-38.)

Shifting volumes from air transportation to existing surface transportation will improve surface transportation capacity utilization. (USPS-T-1 at 2; *see also* Tr. 1/6 (new service standards will result in more efficient network).) The Postal Service projects a four-percentage point improvement in FCPS surface transportation utilization to result from the proposed service standard changes. (Tr. 1/58.)

In addition, the proposed service standard changes will help reduce the need (and expense) of extra trips, by providing time to ensure that all mail volumes are properly loaded onto designated scheduled transportation within the time constraints of the operating plan. Early dispatches, which are frequently necessary to achieve current service standards, risk departing from origin points without all committed volumes, leading to operational plan failures and missed service standard targets. (USPS-T-1 at 17; *see also* Tr. 1/12.)

Similarly, even where surface transportation might otherwise be possible, the current service standards may compel the separation of shipments and extra transportation. Thus, in instances where the destinating Sectional Center Facility (SCF) is within six hours of the origin facility and would have a two-day service standard and the parent Area Distribution Center (ADC) is beyond the current six-hour drive time and therefore has a three-day service standard, the origin facility must separate out the SCF's volume and in some cases plan special transportation to the SCF in order to transport volumes to the destinating SCF prior to its CET. (USPS-T-1 at 11; Tr. 1/49.) The proposed business rules account for transportation time from origin P&DCs to

Destination ADC and to Destination SCF, eliminating the need for special handlings in the network. (See USPS Tr. 1/28-30 (new service standards will result in larger time window, allowing more STC usage, and fewer dedicated trips).)

The proposed service standards will also allow more efficient distribution by transitioning NDCs to RDCs dedicated to package processing. (USPS-T-1 at 4.) Letter and flat products from the current NDCs will be merged into streamlined, shape-based mail flows within P&DCs thereby increasing container and truck density and facilitating greater use of ground transportation assets. (*Id.*) Once the coast-to-coast First-Class surface transportation network is established, the current NDC-to-NDC network will be consolidated into the preferential surface network. (*Id.*) This consolidation is estimated to reduce between 14 and 28 percent of the current inter-NDC trips and between 6 and 8 percent of the intra-NDC trips. (*Id.*; see also Tr. 1/23-24.)

And, for lanes shifting from air to surface modes, some of the volume may be containerized into pallet boxes and staged for dispatch on surface transportation. (USPS-T-1 at 17; see also Tr. 1/108.) Currently, outgoing network air volumes sorted on package sorting equipment and in mail operations must be assigned to an airline as either part of the sort operation or in a subsequent airline assignment operation. (USPS-T-1 at 17.) The reduction in airline assignments and associated handling at origin, plus the reduction in sack handling at destination, is expected to improve processing center efficiency. (*Id.*; see also Tr. 1/13 (fewer airline assignments will mean reduction in workhours because less time spent sorting sacks, less machine sweeping, and less handling).)

3. The Proposed Service Standard Changes Will Reduce Costs.

Subject to variations due to volume, surface transportation is overall less costly than air transportation. (USPS-T-1 at 4, 14.) Thus, shifting volume from air to surface will result in lower overall costs. Likewise, gains in efficiency will also effectively result in reduced overall transportation network costs.

a. Cost Savings Resulting from Changes in Air Volume.

Due to the nature of air carrier transportation contracts, cost generally relates 100 percent to volume—*i.e.*, a 10 percent reduction in volume equals a 10 percent reduction in cost. (USPS-T-2 at 3.) This relationship between cost and volume is referred to as cost-to-capacity variability. (USPS-T-2 at 5.) The Postal Service projects that the proposed FCPS service standard changes, in conjunction with the First-Class Mail service standard changes that will be implemented on October 1, will result in additional reduction in air carrier volume and an overall air transportation cost savings—First-Class Mail (FCM) and FCPS combined—of \$304 million annually. (USPS-T-2 at 4, 8; USPS-LR-N2021-2-NP1; USPS-LR-N2021-2-NP2.)

Reducing the portion of FCPS volume transported by air will also reduce the need for higher-cost unplanned charter flights currently utilized to help cover capacity shortfalls in commercial flights. (See Tr. 1/46-48 (discussing how air charter reductions were calculated); USPS-LR-N2021-2-NP7 (specific details on FCPS air charter costs, etc., under current and proposed service standards).) Similarly, for FCPS volume transported to and from Alaska and Hawaii, the Postal Service must frequently use more expensive air cargo carriers because commercial air carriers' flight schedules would not meet current service standard needs. The proposed additional day added to

the current service standards will provide the flexibility to use lower-cost commercial air carriers over more-expensive cargo air carriers and still meet the service standards. (USPS-T-1 at 5, 17.) An estimated 14 to 48 percent reduction in the number of air charters and commensurate \$15 million to \$98 million annual cost savings may be possible depending on the final volume of the lanes identified to shift from air to surface transportation. (USPS-T-1 at 4; USPS-T-2 at 4; USPS-LR-N2021-2-NP1; *see also* Tr. 1/46-47.)

b. Cost Savings Resulting from Changes in Surface Volume.

As FCPS and FCM volume shifts out of the air network, surface network volume will increase. The cost of this increase, however, will be more than offset by network optimization and efficiencies made possible by the proposed service standard changes in conjunction with the FCM service standard changes.

Surface network capacity is generally measured in cubic foot-miles, and, unlike in the air network, when surface volume changes, the associated costs change to a lesser degree. (USPS-T-2 at 5.) For long-haul highway transportation, the cost-to-capacity variability is 85 to 95 percent, depending on the exact contract type—*i.e.*, a 10 percent increase in volume equals only an 8.5 to 9.5 percent increase in cost. (USPS-T-2 at 6.)

The Postal Service anticipates that the proposed service standard changes will reduce capacity for the Inter-Cluster and Inter-P&DC contract types:

**Table 1: Highway Cost Changes
for Contract Types with Expected Capacity Decreases**

Contract Type	Cost-to-Capacity Variability	Capacity Change	Baseline Cost	Projected Cost Savings
Inter-Cluster	89.1%	-10.7%	\$249 million	\$24 million
Inter-P&DC	85.0%	-4.9%	\$174 million	\$7 million

The total expected annual savings from decreases in network capacity across these contract types is \$31 million. (USPS-T-2 at 7.)

These savings, however, will be offset by increases in network capacity for Inter-Area contracts:

**Table 2: Highway Cost Changes
for Contract Types with Expected Capacity Increases**

Contract Type	Cost-to-Capacity Variability	Capacity Change	Baseline Cost	Projected Cost Increase
Inter-Area	89.9%	2.1%	\$1,091 million	\$21 million

In total, an increase in network capacity in the Inter-Area contracts will lead to a cost increase of \$21 million a year. Combining this increase with the decrease in the Inter-Cluster and Inter-P&DC accounts leads to a net decrease of \$10 million in surface network transportation costs per year. (USPS-T-2 at 7-8.)

c. Cost Savings Resulting from Changes to the Distribution Network.

As discussed above, the proposed service standard changes will facilitate streamlining the NDC transportation network with a possible 14 to 28 percent reduction in capacity on the Inter-NDC network and a 6 to 8 percent reduction in capacity on the

Intra-NDC network. This optimization of the NDC network could result in an additional \$62 to \$116 million annual savings. (See Tr. 1/23-24; USPS-LR-N2021-2-NP5.)

Table 3: Range of Potential Highway Cost Savings for NDC Network

Contract Type	Cost-to-Capacity Variability	Capacity Change	Baseline Cost	Potential Cost Savings
Lower Range				
Inter-NDC	94.7%	14%	\$367 million	\$49 million
Intra-NDC	94.9%	6%	\$241 million	\$14 million
Upper Range				
Inter-NDC	94.7%	28%	\$367 million	\$97 million
Intra-NDC	94.9%	8%	\$241 million	\$18 million

In addition, as discussed above, the additional time to process mail volumes will ensure that all mail volumes are properly loaded onto designated scheduled transportation within the time constraints of the operating plan, thereby reducing costly extra-trips. (USPS-T-1 at 17; Tr. 1/28-30.)

d. Conclusion.

In conclusion, the cost savings presently expected from the FCM and FCPS initiatives come to \$314 million annually; of that amount, \$272 million are a result of the proposed service standard changes for FCM alone, and \$42 million are a result of additional potential service standard changes for FCPS. A potential additional \$77 million to \$214 million savings may also derive from future opportunities in reducing charters and streamlining the NDC network. (USPS-T-2 at 9-10.)

4. The Proposed Service Standard Changes Will Provide Flexibility.

While the proposed service standards will facilitate the increased use of surface transportation for FCPS volume, and the anticipated benefits consequent to adopting those standards, the proposed standards would not compel the use of surface transportation. Rather the Postal Service will retain the flexibility to use air transportation in cases where it would be more efficient or cost effective to do. (USPS-T-1 at 14; see *also* Tr. 1/27 (“If volumes reduce on long distance surface lanes, it may become more cost effective to change modes or routings.”).) Indeed, the Postal Service projects that over 26 percent of FCPS volume will continue to be transported by air under the proposed service standards. (USPS-T-1 at 37.)

5. Some Volume Will Move Faster.

The Postal Service expects that the proposed service standard changes will increase FCPS volume subject to the two-day standard. Specifically, the increase in the drive time for the two-day standard from six to eight hours will increase the FCPS volume transported in two days by almost 5 percent. (USPS-T-1 at 15.)

B. The Proposed Service Standard Changes will not Reduce the Postal Service Workforce, Materially Impact Volume, nor Excessively Impact Customers or Contractors.

While the anticipated long-term benefits of the proposed service standard changes are significant, the Postal Service appreciates that the changes—as with all change—come at a cost to the status quo. To that end, the Postal Service has carefully considered the impact of the proposed service standard changes to customers, suppliers, personnel, and to the Postal Service itself, and will work to mitigate any possible adverse effects.

1. The Change Will Not Materially Impact FCPS Volume.

To evaluate the impact of the proposed service standard on current FCPS—Commercial users, the Postal Service contracted primary survey research to assess if, and to what extent, volume might switch to other delivery services if transit time commitments for FCPS volume shipped to farther zones were slowed by 1 to 2 days while on-time performance were to increase to 95 percent across all zones. (USPS-T-3 at 6-7.) The survey encompassed FCPS shippers across industrial divisions and average daily shipping frequency. (USPS-T-3 at 7.)

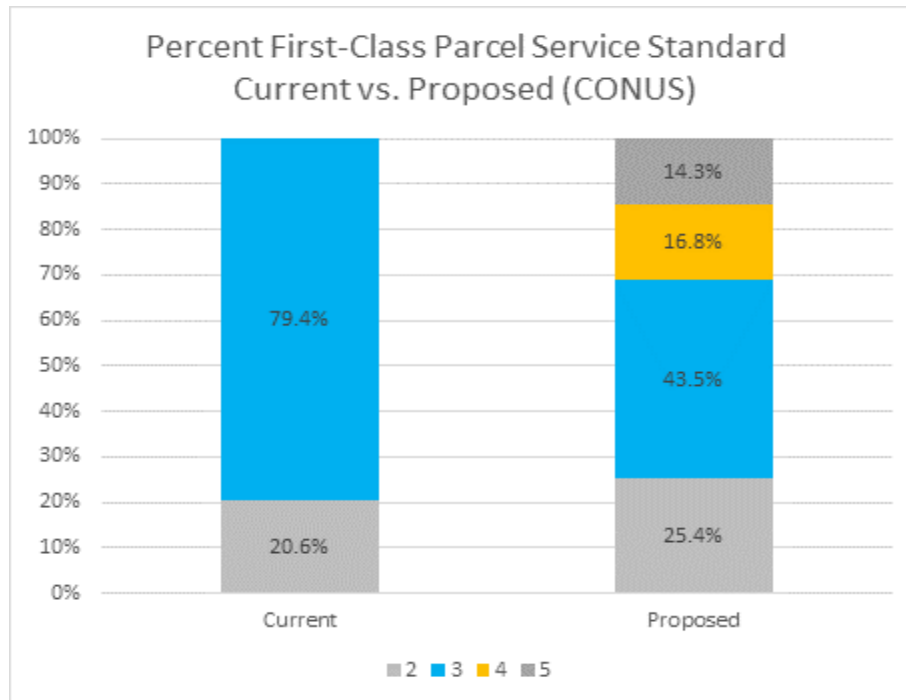
Survey results revealed that most FCPS-Commercial shippers would maintain or, in some cases, increase FCPS use with these proposed changes. (USPS-T-3 at 8.) Indeed, survey respondents most frequently identified price as the primary driver for using FCPS. (USPS-T-3 at 7.) Thus, given these results combined with FCPS's highly competitive prices and anticipated improved reliability, the Postal Service does not anticipate a material change to FCPS-Commercial volumes resulting from the proposed service standard changes and expects continued growth in FCPS-Commercial volume. (USPS-T-3 at 7-8.)

For these same reasons, and the added convenience of the Postal Service's extensive retail network, the Postal Service also anticipates continued growth in FCPS-Retail volumes after the proposed service standards are implemented. (*Id.*)

2. The Change Will Only Modestly Impact Customers.

The Postal Service anticipates that only 31 percent of current three-day FCPS volume within the contiguous forty-eight states will be subject to the proposed four- or five-day standard:

FCPS VOLUME BY SERVICE-STANDARD (GRAPH)



(USPS-T-1 at 35.) Because the proposed changes will, for that volume, increase the time it will take to deliver a package, the Postal Service will inform retail and commercial customers about the service changes so that they can set appropriate expectations for delivery times and allow orderly process adjustments. (USPS-T-1 at 38.) In addition, the Postal Service will continue to offer its Priority Mail product for FCPS customers that require delivery over longer distances in three days or less. (USPS-T-3 at 8.)

3. The Postal Service Will Work with Contractors to Mitigate the Impact of the Changes on the Transportation Network.

The Postal Service also anticipates that the proposed changes will reduce the volume of FCPS carried by commercial air contractors within the contiguous United States and cargo air contractors between and among the contiguous United States, Alaska, Hawaii, and overseas territories for the transportation of FCPS volume, while increasing the use of surface transportation suppliers. In that regard, the Postal Service

will work with its contractors to ensure that changes are communicated effectively and that negative impacts on suppliers from abrupt changes are minimized. (USPS-T-1 at 39-40.)

4. The Change Will Not Reduce the Postal Service Workforce.

The Postal Service does not anticipate any reduction to its workforce consequent to the proposed service standard changes. (USPS-T-1 at 17-18, 39.) It is possible, however, that increases in efficiency due to reduced air assignment operations, reduced handling at origin and destination due to sorting into pallet boxes instead of sacks, and increased transportation efficiencies from consolidating vehicle volume may potentially reduce the need for employee overtime. (*Id.*; *see also* Tr. 1/13.)

C. The Proposed Changes Accord and Conform with Statutory Policy.

The Postal Service is broadly charged with providing adequate, reliable, efficient, prompt and economical, Nationwide postal service without undue or unreasonable discrimination.¹ A policy of the statute that is particularly relevant to the proposed service standard changes at issue in these proceedings, which allow the increased use of surface over air transportation, is balancing prompt and economical service: “In selecting modes of transportation, the Postal Service shall give highest consideration to the prompt and economical delivery of all mail . . .”. Indeed, title 39 of the United States Code recognizes mail transportation as a specific power granted to the Postal Service.²

¹ 39 U.S.C. §§ 101(a, f), 403(a-c), 3661(a). For competitive products specifically, the Postal Service must also comply with the provisions of 39 U.S.C. § 3633.

² 39 U.S.C. § 404(a)(1).

In that regard, the Postal Service has significant discretion to determine how best to balance and fulfill these policies. See, e.g., Advisory Opinion on Retail Access Optimization Initiative, PRC Docket No. N2011-1 (2011), at 7-9 (“The Postal Service is afforded a significant amount of authority under the statute, and has reasonable discretion to interpret the ambiguous terms delineating its powers and obligations.”); Advisory Opinion on Elimination of Saturday Delivery, PRC Docket No. N2010-1 (2011), at 11-13 (“The Postal Service is afforded a significant amount of flexibility in determining how to” fulfill Sections 101 and 403, which “set[] out general postal policies[.]”).

1. The Proposed Service Standard Changes Enable the Postal Service to Achieve a Better Balance of Prompt and Economical Package Transportation.

As required by section 101(f) of title 39 of the United States Code, when evaluating the proposed FCPS service standard changes, the Postal Service gave the highest consideration to the balance of prompt and economical mail delivery.³ As demonstrated above, the proposed service standard changes will promote more reliable and economical FCPS transportation. Indeed, the changes are expected to achieve annual cost savings of \$42 million, with a potential additional \$77 million to \$214 million annual savings from future opportunities in reducing air charters and streamlining the NDC network. (See *supra*, section III.A.3.)

These service performance and economic gains are achieved by expanding the transportation window between origin and destination processing facilities, thereby reducing the Postal Service’s dependence on more expensive and less reliable air

³ See 39 U.S.C. § 101(f).

transportation in favor of less expensive and more reliable surface transportation. That shift, however, will impact less than one-third of FCPS volume: 17 percent will see a one-day increase in delivery times and 14 percent will see a two-day increase. Almost 5 percent, however, will see a one-day improvement in service standards while the remaining 64 percent will see no change at all. (*See supra*, section III.B.2.) The limited scope of these service standard changes demonstrates that the Postal Service is carefully considering how to appropriately balance the statutory policies.

While the proposed changes will undeniably reduce service standards for a fraction of FCPS volume (although not necessarily actual service performance), that volume will receive significantly enhanced service reliability, further demonstrating that the Postal Service is striking an appropriate balance. It is also important to recognize that, for package transportation as opposed to letter mail, “prompt” does not mean as fast as possible. Indeed, the law makes that distinction expressly. Whereas “prompt and economical delivery” is a paramount consideration for transporting “all mail,” the principal transportation consideration for important letter mail is “most expeditious”—“In determining policies for postal services, the Postal Service shall give highest consideration to the requirement for the most expeditious collection, transportation, and delivery of *important letter mail*.”⁴ Given the distinct application of “most expeditious” exclusively to important letter mail, “prompt” as applied to package mail must mean something less.⁵ Moreover, with respect to the required and necessary balance

⁴ 39 U.S.C. § 101(e) (emphasis added); *see also id.*, § 101(f) (“overnight transportation . . . of important *letter mail* . . . shall be a primary goal of postal operations.” (emphasis added)).

⁵ William N. Eskridge, Jr., Philip P. Frickey, & Elizabeth Garrett, *Cases and Materials On Legislation: Statutes And The Creation Of Public Policy* 834 (3d. ed. 2001) (meaningful variation canon presumes that different terms have different meanings); Antonin Scalia & Bryan A. Garner, *Reading Law: The Interpretation of Legal Texts* 167, 170 (2012) (for example, a statute that uses the term “land” in one place

between speed and cost, the Postal Service offers a range of package products for customers to choose from. FCPS provides a particular balance, while other package products exist for those who would want faster delivery.

Given the significant economic and reliability benefits of these changes, and their limited impact, the balance of prompt and economical package transportation favors implementing the proposed service standard changes and falls well within the breadth of Postal Service discretion for selecting modes of package transportation. That conclusion is even more compelling when the general Postal Service duties of efficiency and reliability are also considered.

2. The Proposed Service Standard Changes Promote More Reliable and Efficient First-Class Package Service.

In accordance with the statutory duties embodied in title 39 of the United States Code, the proposed service standard changes promote more reliable and efficient FCPS.⁶

Increasing the use of surface transportation beyond the current practical limit of 1,800 miles to potentially the entire contiguous forty-eight states will greatly improve FCPS transportation reliability. (*See supra*, section III.A.) It will also improve the overall efficiency of the postal transportation network by allowing greater route efficiency, vehicle utilization, capacity utilization, and more consistent processing and distribution, as well as increase opportunity for containerization and reduction in sack handling. (*See supra*, section III.A.2.)

and “real estate” in another, implies that the terms have different meanings—“real estate” meaning land *and* improvements thereon.)

⁶ 39 U.S.C. §§ 101(a), 403(a), 3661(a).

Improved reliability and efficiency accords and conforms with the policies applicable to the proposed service standard changes.

3. The Proposed Service Standard Changes Will Improve the Already Adequate First-Class Package Service.

The Postal Service is also charged with providing “adequate” postal service.⁷ In that regard, increasing volume confirms that customers already consider FCPS to be more than adequate under the current standards. The most significant driver of that volume is FCPS’s highly competitive prices, which are not expected to change as a consequence of implementing the proposed service standard changes; accordingly, the Postal Service does not anticipate any FCPS volume reduction from the proposed service standards. (*See supra*, section III.B.1.) To the contrary, it seems likely that improved reliability added to competitive pricing will result in potential further FCPS volume increases. Indeed, a survey of the impact of the proposed service standard changes on current FCPS-Commercial customers—the largest source of FCPS volume—revealed that most FCPS-Commercial shippers would maintain or, in some cases, increase FCPS use once the proposed service standards are implemented. (*See supra*, section III.B.1.)

The proposed service standard changes are, therefore, likely to improve the already more than adequate FCPS in accordance with the policies of title 39 of the United States Code.

⁷ 39 U.S.C. §§ 403(a), 3661(a).

4. The Proposed Service Standard Changes are not Unduly nor Unreasonably Discriminatory.

Section 403(c) of title 39 prohibits undue or unreasonable discrimination among similarly situated mail users.⁸ Whether the proposed service standard changes at issue in this proceeding would be unduly or unreasonably discriminatory entails a three-part analysis: (1) whether one or more mailers are offered less favorable rates or terms and conditions than those offered to other mailers; (2) whether the two sets of mailers are similarly situated; and, (3) whether there is a rational or legitimate basis for differing treatment. Advisory Opinion on Service Changes Associated with First-Class Mail and Periodicals, PRC Docket No. N2021-1 (July 20, 2021), at 170 (citing Order No. 718, Order on Complaint, PRC Docket No. C2009-1 (Apr. 20, 2011), at 28).

The FCPS service standards, like the standards considered by the Commission in Docket No. N2021-1, are based on distance (more precisely, on drive time) from origin to destination—mail travelling farther will have a longer standard than mail travelling nearer. This distinction based on drive time already exists in the current FCPS standards, regarding the distinction between 2-day and 3-day mail. Service standards based on distance that are applied on a nationwide basis do not facially distinguish between mailers who use the service. No mailers are offered more or less favorable terms than other mailers; rather, all mailers are offered and receive the same service depending on the drive time from origin to destination: all mailers sending a package that requires less than eight hours' drive time from origin to destination will be offered two-day service, irrespective of the origin, the destination, or any other criteria;

⁸ See 39 U.S.C. § 403(c).

all mailers sending a package to a destination that is more than eight-hours but less than thirty-two hours' drive time will be offered three-day service; and so on. Under both the existing and the proposed service standards, all mailers will be offered and will receive the same level of service.

This demonstrates that no similarly situated customers are treated differently under these standards. At the very least, there is no basis to make such a conclusion in the abstract: even imagining a hypothetical set of mailers who might be disparately impacted by the proposed service changes, addressing in the abstract whether such mailers might be 'similarly situated' within the scope of section 403(c) would be impractical, bordering on impossible, given the virtually infinite variables. Thus, whether mail users are "similarly situated" for section 403(c) purposes is a fact-driven, nuanced, and complex inquiry, that is best determined on a case-by-case comparison of the relevant characteristics of the mailers. *Advisory Opinion on Service Changes Associated with First-Class Mail and Periodicals*, PRC Docket No. N2021-1 (July 20, 2021), at 175 (citing *Order No. 718*, *Order on Complaint*, PRC Docket No. C2009-1 (Apr. 20, 2011), at 45, 59).

Finally, and regardless of the first two elements, the proposed service standards accord with section 403(c) because any conceived differing treatment among similarly situated mailers rationally advances legitimate postal policies. *See, e.g.*, *Order No. 1327*, *Order Dismissing Complaint*, PRC Docket No. C2011-2 (May 1, 2012), at 16 ("The Commission concludes that the Postal Service's actions do not constitute undue discrimination against SRO [Single-Room Occupancy] residents in violation of 39 U.S.C. § 403(c). The differences in mode of delivery to SROs and apartment houses

are rationally related to the Postal Service’s statutory mandate to provide adequate and efficient postal services, including an efficient system of delivery of mail nationwide.”); *Eggers v. U.S. Postal Serv.*, 436 F. Supp. 138, 143 (W.D. Va. 1977) (upholding different delivery service methods between unmarried students and married students living in physically similar buildings as “rationally related to the achievement of the Postal Service’s statutory goal of providing economical and efficient mail delivery”). Specifically, the differentiation of service standards based on drive time from origin to destination is rationally related to the Postal Service’s statutory mandate to provide adequate, efficient, reliable, and economical postal services. (See *supra*, sections III.C.1-3.) In this regard, it is well-settled that “[t]he Postal Service has wide latitude in providing different levels of service to different groups of users so long as those distinctions are reasonable.” Advisory Opinion on Service Changes Associated with First-Class Mail and Periodicals, PRC Docket No. N2021-1 (July 20, 2021), at 175 (citing *Eggers v. U.S. Postal Serv.*, 436 F. Supp. at 142).

The proposed service standards are not unduly or unreasonably discriminatory and, therefore, accord and conform with the policies expressed in section 403(c) of title 39 of the United States Code.

5. The Proposed Service Standard Changes Conform with the Financial Performance Policies for Competitive Products

Lastly, the proposed changes would not impair compliance with the policies of section 3633 regarding the financial performance of competitive products.⁹ As a competitive product, FCPS would still maintain revenues that cover its attributable

⁹ 39 U.S.C. § 3633.

costs, as required by section 3633(a)(2). Likewise, with respect to the other provisions of section 3633, there is no increased risk of cross-subsidization of competitive products by market dominant products, or any diminishment in the expected ability of competitive products collectively to cover an appropriate share of the Postal Service's institutional costs.

D. The Statements of Position are Inapposite.

As of August 18, 2021, eight Statements of Position had been submitted in this Docket. One generally opposes any lessening of postal services for any reason. Two assert that postal services are a Constitutional right. And four complain that the Postal Service should not be required to be financially self-sustaining, and that cost-savings should not be a consideration for reducing postal services—three of those assert that the Postal Service should be funded by tax dollars. The eighth commentor, while seemingly intending an opposition, notes only her dependence on the Postal Service and kindly recognizes that “[t]here is no commercial service that can even come close to the price and efficiency of the U.S. Postal Service.”

While the Postal Service appreciates these Statements, the source of postal service funding is beyond the scope of these proceedings. Nor may the Postal Service ignore its self-sufficiency mandate; indeed, costs are an express operational consideration the Postal Service must balance. As discussed above, the proposed FCPS service standard changes accord and conform with the statutory policy considerations that govern postal services. (*See supra*, section III.C.) They are, overall, part of a comprehensive and balanced plan to ensure that the Postal Service can

provide postal services to the American people in a reliable and financially sustainable manner.

IV. PROPOSED FINDINGS AND CONCLUSIONS

The Postal Service respectfully proposes that the Commission make the following findings and conclusions in accordance with the record evidence presented in these proceedings:

A. Findings

1. Surface transportation has historically been more reliable than air transportation. (*See supra*, section III.A.1.)
2. Surface transportation suffers less from weather delays and network congestion than does air transportation. (*See supra*, section III.A.1.)
3. Surface transportation does not experience delays due to air traffic control ground stops. (*See supra*, section III.A.1.)
4. Surface transportation requires fewer handlings than air transportation and so offers fewer potential points of failure. (*See supra*, section III.A.1.)
5. The proposed service standard changes will enable more reliable First-Class Package Service. (*See supra*, section III.A.1.)
6. Reducing the volume of FCPS from the air network should reduce the need for costly ad hoc charter flights currently utilized to help cover capacity shortfalls in the current air network. (*See supra*, section III.A.3.)
7. Shifting FCPS volume from air to surface transportation should lead to improved transportation capacity utilization. (*See supra*, section III.A.2.)

8. Expanding the current transit window time for FCPS volume should allow the Postal Service to increase the use of transfers via aggregation sites and surface transfer centers. (*See supra*, section III.A.2.)

9. Expanding the current transit window time for FCPS volume should allow the Postal Service to combine trailer loads for one destination with loads for other destinations (load sequencing). (*See supra*, section III.A.2.)

10. Expanding the current transit window time for FCPS volume should allow the Postal Service to route “multi-stop” lanes where the Postal Service could pick up volume from multiple origins along the line of travel for the final destination. (*See supra*, section III.A.2.)

11. Expanding the transit window time for FCPS volume will help avoid the need for early dispatches, which will reduce the need for and expense of extra trips to retrieve missed volumes. (*See supra*, section III.A.2.)

12. Expanding the transit window time for FCPS volume will help avoid the need for early dispatches, which will improve operational plan and service target performance. (*See supra*, section III.A.1.)

13. The increase in the drive time for the two-day standard from six to eight hours should increase the volume of FCPS transported in two days by almost 5 percent. (*See supra*, section III.A.5.)

14. Increasing the reach of the current two-day service standard from six hours to eight hours should eliminate the need to separate shipments and make special trips where the destinating Sectional Center Facility is within six-hours drive time of

origin facility but the parent Area Distribution Center is beyond the six-hour range but within the proposed eight-hour range. (*See supra*, section III.A.2.)

15. Shifting FCPS volume from air to surface transportation will allow the Postal Service to transition Network Distribution Centers to Regional Distribution Centers dedicated to package processing, while letters and flat products from the current Network Distribution Centers will be merged into streamlined, shape-based mail flows within the Postal Service's P&DCs, which will allow increased container and truck density and facilitate greater use of ground transportation assets. (*See supra*, section III.A.2.)

16. Optimizing the NDC network should result in significant annual cost savings, which the Postal Service projects to run between \$62 million and \$116 million. (*See supra*, section III.A.3.)

17. The proposed service standards should enable some of the package volume to be containerized into pallet boxes and staged for dispatch on surface transportation. (*See supra*, section III.A.2.)

18. The proposed service standards will likely reduce airline assignments and associated handling at origin. (*See supra*, section III.A.2.)

19. The proposed service standards will likely reduce sack handling at destination. (*See supra*, section III.A.2.)

20. For package volume that would still be transported by air, the proposed service standards will promote flexibility to select lower-cost commercial air carriers over more expensive cargo air carriers for offshore transportation. (*See supra*, section III.A.4.)

21. Shifting FCPS volume from air to surface transportation should result in lower overall transportation costs. (*See supra*, section III.A.3.)

22. The increased surface transportation costs resulting from shifting FCPS volume from air to surface transportation should be more than offset by network optimization and efficiencies made possible by the proposed service standard changes. (*See supra*, section III.A.3.)

23. The proposed service standard changes should not materially impact FCPS volume. (*See supra*, section III.B.1.)

24. The proposed service standard changes should only modestly impact FCPS customers. (*See supra*, section III.B.2.)

25. The proposed service standard changes should not reduce the Postal Service workforce. (*See supra*, section III.B.4.)

B. Conclusions

1. The policies codified in title 39 of the United States Code broadly charge the Postal Service with providing adequate, reliable, efficient, prompt, and economical, Nationwide postal service without undue or unreasonable discrimination. (*See supra*, section III.C.)

2. The Postal Service is afforded significant discretion to determine how best to fulfill its statutory duties. Advisory Opinion on Retail Access Optimization Initiative, PRC Docket No. N2011-1 (2011), at 7-9; Advisory Opinion on Elimination of Saturday Delivery, PRC Docket No. N2010-1 (2011), at 11-13. (*See supra*, section C.)

3. Section 101(f) of title 39 of the United States Code requires that the Postal Service give highest consideration to the prompt and economical delivery of mail in selecting transportation modes. (*See supra*, section III.C.)

4. The proposed service standard changes should enable the Postal Service to achieve a better balance of prompt and economical package transportation as required by 39 U.S.C. § 101(f). (*See supra*, section III.C.1.)

5. The proposed service standard changes promote more reliable and efficient First-Class Package Service in accordance with 39 U.S.C. §§ 101(a), 403(a), and 3661(a). (*See supra*, section III.C.2.)

6. The proposed service standard changes will improve the already adequate First-Class Package Service in accordance with 39 U.S.C. §§ 403(a) and 3661(a). (*See supra*, section III.C.3.)

7. Service standards based on distance do not facially distinguish between mailers who use the service. (*See supra*, section III.C.4.)

8. Under the proposed service standards, similarly situated mailers will be offered and will receive the same level of service. (*See supra*, section III.C.4.)

9. It is well-settled that “[t]he Postal Service has wide latitude in providing different levels of service to different groups of users so long as those distinctions are reasonable.” Advisory Opinion on Service Changes Associated with First-Class Mail and Periodicals, PRC Docket No. N2021-1 (July 20, 2021), at 175 (citing *Eggers v. U.S. Postal Serv.*, 436 F. Supp. at 142). (*See supra*, section III.C.4.)

10. The differentiation of service standards based on drive time from origin to destination is rationally related to the Postal Service’s statutory mandate to provide

adequate, efficient, reliable, and economical postal services. (*See supra*, section III.C.4.)

11. The proposed service standard changes are not unduly nor unreasonably discriminatory. (*See supra*, section III.C.4.)

12. The proposed service standard changes accord and conform with the policies of title 39 of the United States Code. (*See supra*, section III.C.)

V. CONCLUSION

Pursuant to 39 U.S.C. section 3661 and 39 C.F.R. Part 3020, for the foregoing reasons and based on the record in this proceeding, the Commission should adopt the Postal Service's proposed findings and conclusions above and issue a favorable advisory opinion that the proposed service standard changes presented by the United States Postal Service Request for an Advisory Opinion on Changes in the Nature of Postal Services, PRC Docket No. N2021-2 (June 17, 2021), are consistent with the policies of title 39 of the United States Code.

Respectfully submitted,

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APPENDIX

Comparison of the Current and Proposed FCPS Service Standards

For FCPS, there are separate delivery day ranges for volume transported entirely within the contiguous forty-eight states and for volume that originates or destines outside the contiguous forty-eight states. (USPS-T-1 at 6, n.7.)

1. Service Standards Within the Contiguous Forty-Eight States.

The current service standards for FCPS within the contiguous forty-eight states would generally change from either a two- or three-day service standard to a two- to five-day standard. Thus, the current two-day standard applies to intra-SCF FCPS and to inter-SCF volume where the drive time between the origin P&DC facility and destination SCF is 6 hours or less. (USPS-T-1 at 6.) Where the drive time between the origin P&DC facility and destination SCF exceeds six hours, the three-day service standard applies. (USPS-T-1 at 7.)

The proposed service standards for FCPS within the contiguous forty-eight states will continue to apply a two-day service standard for intra-SCF volume but would increase the transit window for inter-SCF volume by two hours, to include an eight-hour drive time. (USPS-T-1 at 8.) A three-day service standard would apply to FCPS with a drive time greater than eight hours but less than thirty-two hours. (*Id.*). For a drive time between thirty-two and fifty hours, a four-day service standard would apply. (USPS-T-1 at 8-9.) And a five-day service standard would apply to all other FCPS within the contiguous forty-eight states. (USPS-T-1 at 9.)

2. Service Standards Outside the Contiguous Forty-Eight States.

For FCPS that originates or destines outside the contiguous forty-eight states, the standards would generally change by adding a day to the current three- or four-day standard, while maintaining the five-day limit. Specifically:

	Current Standard	Proposed Standard
<ul style="list-style-type: none">• The origin is in the contiguous 48 states, and the destination is in any of the following: Anchorage, Alaska (5-digit ZIP Codes 99501 through 99539); the 968 3-digit ZIP Code area in Hawaii; or the 006, 007, or 009 3-digit ZIP Code areas in Puerto Rico;• The origin is in the 006, 007, or 009 3-digit ZIP Code areas in Puerto Rico, and the destination is in the contiguous 48 states;• The origin is in Hawaii, and the destination is in Guam, or vice versa;• The origin is in Hawaii, and the destination is in American Samoa, or vice versa; or• Both the origin and destination are within Alaska.	Three Days	Four Days
<ul style="list-style-type: none">• The origin is in the contiguous 48 states and the destination is in any of the following: any portion of Alaska other than Anchorage (5-digit ZIP Codes 99501 through 99539); any portion of Hawaii other than the 968 3-digit ZIP Code area; or the U.S. Virgin Islands;• The destination is in the contiguous 48 states and the origin is in Alaska, Hawaii, or the U.S. Virgin Islands; or• The origin and destination are in different non-contiguous states or territories, excluding mail to and from	Four Days	Five Days

Guam and mail between Puerto Rico and the U.S. Virgin Islands.		
• Everything else.	Five Days	Five Days

(USPS-T-1 at 7-9.)